

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Charlevoix Township Hospital Finance Autho	County Charlevoix
Fiscal Year End DECEMBER 31, 2006	Opinion Date FEBRUARY 2, 2007	Date Audit Report Submitted to State MARCH 15, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

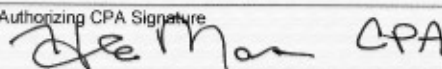
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) MASON & KAMMERMAN, PC		Telephone Number (231) 547-4911	
Street Address 110 PARK AVENUE		City CHARLEVOIX	State MI
			Zip 49720
Authorizing CPA Signature  CPA		Printed Name Hugh E Mason, CPA	License Number 1101.008161

CHARLEVOIX TOWNSHIP HOSPITAL FINANCE AUTHORITY

CHARLEVOIX, MICHIGAN

FINANCIAL STATEMENTS

AND OTHER FINANCIAL INFORMATION

for the year ended December 31, 2006

MASON & KAMMERMANN, P.C.
110 PARK AVENUE
CHARLEVOIX, MICHIGAN 49720

Charlevoix Township Hospital Finance Authority

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MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

HUGH E. MASON
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INDEPENDENT AUDITOR'S REPORT

February 2, 2007

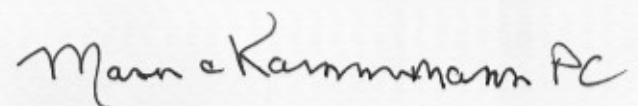
Board of Trustees
Charlevoix Township Hospital Finance Authority
Charlevoix, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Charlevoix Township Hospital Finance Authority of Charlevoix, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Charlevoix Township Hospital Finance Authority as of December 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Mason & Kammermann PC".

Mason & Kammermann, P.C.
Certified Public Accountants

Charlevoix Township Hospital Finance Authority

Management's Discussion & Analysis February 2, 2007

Overview of the Basic Financial Statements

The Charlevoix Township Hospital Finance Authority's (Authority) basic financial statements include a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows. These are all reported using the accrual basis of accounting.

Financial Statements

The Statement of Net Assets presents the Authority's assets and liabilities, within the difference reported as net assets.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the most recent fiscal year.

The Statement of Cash Flows presents cash flows from operations, financing and investing activities. Additionally, non-cash transactions that have an effect on the Authority's financial position are also presented.

Notes to the Financial Statements

The notes provide additional information, which is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

The table below summarizes the Authority's net assets as of December 31, 2006:

Charlevoix Township Hospital Finance Authority December 31, 2006

Assets	
Current	\$ 812,615
Other	<u>7,962,966</u>
Total assets	8,775,581
Liabilities	
Current portion of bonds payable	812,615
Bonds payable not of current portion, etc.	<u>7,962,966</u>
Total liabilities	8,775,581
Net Assets	
Restricted for debt service	<u>\$ -</u>

Charlevoix Township Hospital Finance Authority

Management's Discussion & Analysis February 2, 2007

At the end of the fiscal year, the Authority is reporting a zero balance for net assets restricted for debt service.

The results for the Authority as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets, which is summarized below:

Charlevoix Township Hospital Finance Authority Year Ended December 31, 2006

Revenues	\$ 430,160
Expenses	<u>(430,160)</u>
Excess (deficiency) of revenues Over expenses	-
Net assets - beginning of year	<u>-</u>
Net assets - end of year	<u><u>\$ -</u></u>

As shown above, the current year balance was zero. The Authority relies on loan payments from the Hospital and Nursing Home to make the required bond payments. The Authority earns interest on these payments from the Nursing Home and Hospital until the bond payments are actually made. The Hospital is able to consider the interest retained by the Authority in determining its next required loan payment.

Economic Factors

The Charlevoix Township Hospital Finance Authority was incorporated for the purpose of acquiring, constructing, remodeling, enlarging, repairing, owning and leasing health care facilities. It was also incorporated to finance or refinance these activities and to lend money to a hospital for similar purposes. Currently, the Authority has two loans outstanding with Charlevoix Nursing Home and Charlevoix Area Hospital related to the Series 1993 and 2001 Bonds as explained in the notes to the financial statements. The Hospital and Nursing Home have been making its loan payments on a timely basis. The expectation is that these timely payments will continue to be made and the related bonds will be retired as intended.

Charlevoix Township Hospital Finance Authority

Statement of Net Assets December 31, 2006

ASSETS

CURRENT ASSETS:

Current portion of loan receivable:

Charlevoix Nursing Home Corporation	\$ 155,024
Charlevoix Area Hospital	<u>657,591</u>

Total current assets 812,615

Loan receivable

Charlevoix Nursing Home Corporation	\$ 955,542
Charlevoix Area Hospital	<u>7,820,039</u>

Total loans receivable 8,775,581

Less portion due within one year (812,615)

Total loans receivable long term 7,962,966

Total assets \$ 8,775,581

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES,

Current portion of long-term debt due within one year

Charlevoix Nursing Home Corporation	\$ 155,024
Charlevoix Area Hospital	<u>657,591</u>

Total current liabilities 812,615

LONG-TERM DEBT:

Bonds payable

Charlevoix Nursing Home Corporation	\$ 955,542
Charlevoix Area Hospital	<u>7,820,039</u>

Total bonds payable 8,775,581

Less portion due within one year (812,615)

Total long-term debt 7,962,966

Total liabilities 8,775,581

NET ASSETS

Total liabilities and net assets \$ 8,775,581

The accompanying notes are a part of the financial statements.

Charlevoix Township Hospital Finance Authority

Statement of Revenues, Expenditures and Changes in Fund Balances For the year ended December 31, 2006

REVENUES:

Payment received from Nursing Home to defray Series 1993 Bond interest expense	\$ 63,599
Payment received from Hospital to defray Series 2001 Bond interest expense	<u>366,561</u>
Total Revenues	430,160

EXPENSES,

Bond interest expenses:	
Charlevoix Nursing Home Corporation	\$ 63,599
Charlevoix Area Hospital	<u>366,561</u>
Total bond interest expenses	<u>430,160</u>
Excess Revenues over Expenses	-

NET ASSETS, Beginning of year	<u>-</u>
NET ASSETS, End of year	<u><u>\$ -</u></u>

The accompanying notes are a part of the financial statements.

Charlevoix Township Hospital Finance Authority

Statement of Cash Flows For the year ended December 31, 2006

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Principal received on loans receivable	\$ 747,958
Reduction of long-term debt	<u>(747,958)</u>

Net cash provided by capital and related financing activities	-
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CASH AND CASH EQUIVALENTS, Beginning of year	<u>-</u>
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CASH AND CASH EQUIVALENTS, End of year	<u><u>\$ -</u></u>
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There were no cash flows from operating activities as shown by the following reconciliation:

Excess of revenues over expenses	\$ -
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Adjustments to reconcile excess of revenues
over expenses to net cash from operating
activities:

Interest on loans receivable (reflected as capital and related financing activities)	430,160
Bond interest expenses (reflected as capital and related financing activities)	<u>(430,160)</u>

Net cash flows provided by operating activities	<u><u>\$ -</u></u>
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The accompanying notes are a part of the financial statements.

Charlevoix Township Hospital Finance Authority

Notes to Financial Statements For Year Ended December 31, 2006

Note A – Summary of Significant Accounting Policies

The Charlevoix Township Hospital Finance Authority, a governmental finance authority, was created as a corporate instrumentality in 1993 by Charlevoix Township of Charlevoix County under the provisions of the Hospital Finance Authority Act, Act 38, Public Acts of Michigan, 1969, as amended. The Authority was incorporated for the purpose of acquiring, reconstructing, remodeling, enlarging, repairing, owning and leasing health care facilities. It was also incorporated to finance or refinance these activities and to lend money to a hospital for similar purposes.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of significant accounting policies:

- a. Loans receivable are carried at face value.
- b. The outstanding bonds payable are recorded as liabilities.
- c. Interest income is recorded when received. Interest expense associated with the bonds is recorded when cash is disbursed.

Note B – Bond Payable – Charlevoix Nursing Home Corporation

The Limited Obligation Revenue Bond (Charlevoix Nursing Home Corporation) principal and interest payments are due on the first day of each month in an amount sufficient to fully amortize the principal balance by June 1, 2013.

Under terms of the Loan Agreement between the Authority, Charlevoix Nursing Home Corporation and Fifth Third Bank of Petoskey, the Nursing Home has agreed to pay to the Bank at specified times amounts adequate to pay all debt service costs associated with the bond issue.

As of January 3, 2005 the rate of interest was changed to equal sixty-eight percent of the bondholder's current prime rate.

The Nursing Home has agreed to make such payments from its income available for debt service. Such income includes generally the excess of revenue, including investment income and gifts not restricted by donors, over expenses excluding depreciation, amortization, interest expense and certain extraordinary items. In addition, the Nursing Home has agreed to maintain its tax exempt status, continue to operate as a nursing home, to keep the nursing home facilities in good repair, and to limit incurrence of additional debt to specific amounts under certain conditions as defined in the agreement.

Charlevoix Township Hospital Finance Authority

Notes to Financial Statements For Year Ended December 31, 2006

Note C – Bond Payable – Charlevoix Area Hospital – Series 2001

The Limited Obligation Hospital Revenue and Refunding Bond, (Charlevoix Area Hospital Project), Series 2001 principal and interest are payable on the thirteenth day of each month until November 13, 2016 when the remaining principal and interest balance shall be due.

Under terms of the Loan Agreement between the Authority, Charlevoix Area Hospital and Citizens Bank of Charlevoix, Michigan, the Hospital has agreed to pay to the Bank at specified times amounts adequate to pay all debt service costs associated with the bond issue.

The Hospital has agreed to make such payments from its income available for debt service. Such income includes generally the excess of revenue, including investment income and gifts not restricted by donors, over expenses excluding depreciation, amortization, interest expense and certain extraordinary items.

In addition the Hospital has agreed to maintain its tax-exempt status, continue to operate as a hospital, to keep the hospital facilities in good repair, and to limit incurrence of additional debt to specific amounts under certain conditions as defined in the agreement.

The bond is not a general obligation of the Charlevoix Township Hospital Finance Authority. Further, it is not a debt of the Township of Charlevoix, nor has the Township pledged its full faith and credit for payment of the bond. The bond agreement is written with an interest rate of 4.46 percent per annum through November 12, 2011. At that time, the rate shall be adjusted to equal 98 percent of the then current yield on U.S. Treasury Securities with five years remaining until maturity.

Each monthly installment of principal shall be calculated as that amount which would be payable for that numbered installment under a one hundred sixty five (165) month amortization schedule of even monthly payments comprising principal and interest, applying the Tax Exempt Rate in effect as provided herein (for payments due on the thirteenth day of each month through and including November 12, 2006 such amount shall be \$82, 219.60); provided that upon the adjustment of the Tax Exempt Rate as provided herein on November 13, 2011, the schedule of level monthly payments of principal and interest shall be recalculated based upon the principal amount of the Note then outstanding, the adjusted Tax Exempt Rate and the number of remaining months to the Maturity Date. Therefore, the amount of principal to be redeemed for the years

Charlevoix Township Hospital Finance Authority

Notes to Financial Statements For Year Ended December 31, 2006

ended December 31, 2007 through February 12, 2016 cannot be determined at this time.

Note D – Loans Receivable and Payments Received Under the Bond

Payments required by the Nursing Home and the Hospital includes both principal and interest. Only the portion of the payments attributed to principal is applied against the loans receivable.

Payments by the Nursing Home on the bond for principal and interest are due on the first day of each month, and the Hospital's payment is due on the thirteenth day of each month.

Note E – Schedule of Indebtedness – Charlevoix Nursing Home Corporation

	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Annual Maturity</u>	<u>Outstanding at December 31, 2006</u>
Limited obligation revenue bond (Charlevoix Nursing Home Corporation) Dated June 1, 1993	\$ 2,400,000	5.61		<u>\$ 955,542</u>

Commencing on January 3, 2005, the rate of interest was changed to sixty-eight percent of the current prime rate of the bondholder. Due to the floating rate schedule, the amount of principal to be redeemed for the years ending December 31, 2007 through December 31, 2013 cannot be determined at this time.

Charlevoix Township Hospital Finance Authority

Notes to Financial Statements For Year Ended December 31, 2006

Note F – Schedule of Indebtedness – Charlevoix Area Hospital

	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Annual Maturity</u>	<u>Outstanding at December 31, 2006</u>
Limited obligation revenue bond (Charlevoix Area Hospital) dated November 13, 2001	\$10,000,000	4.46	2007 2008 2009 2010 2011-2016	\$ 637,590 666,615 696,962 728,689 <u>5,090,183</u> <u>\$ 7,820,039</u>

On November 12, 2011, the rate of interest will be adjusted equal 98 percent of the then current yield of U.S. Treasury Securities with five years remaining until maturity.

The amount of principal to be redeemed for the years ending December 31, 2011 through December 31, 2016 cannot be determined at this time.